Financial HARTbeat

BOC rates
Oct 28th 2026



Good Morning,

A rate hike has become the base case. NBF Economics leans toward a hike, arguing that persistent energy prices, firmer near-term inflation pressures and Governor Macklem's recent messaging have shifted the balance toward tightening.

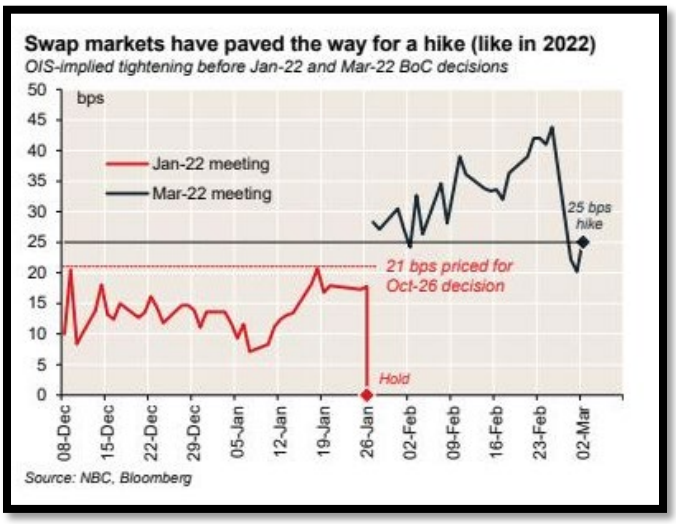
Oil is the key catalyst. The report says oil prices are **10–20% above early-September levels**, increasing the risk that energy inflation eventually spills over into broader prices.

Markets are already positioned for it. OIS markets had roughly **21 bps of a 25-bp hike priced** for the October 28 decision, meaning a hold would represent a significant surprise.

Catch the playback of our Weekly Roundup ***Click here***

Also, catch the playback of our Annual Outlook ***Click here***

Chart of the Day: Often get the question..what happens when rates rise…nothing already priced in…





Ben Hart
Senior Wealth Advisor & Portfolio Manager
› 613-760-3788
› ben.hart@nbc.ca

National Bank Financial - Wealth Management
50 O'Connor Street Suite 1602
Ottawa, ON K1P 6L2

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

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Top News

The Bank of Canada is widely expected to increase its benchmark interest rate by 25 basis points to 2.5% today, in a move seen by most economists as a protection from a possible broader spillover of energy inflation. It would be the central bank's first hike since mid-2023 and its first policy change in almost a year. Unfortunately, it would also likely push up bank lending rates and mortgage costs and could slow economic growth. But many economists say it would help the Bank of Canada head off cost pressures that are likely to spread from higher gasoline and diesel prices in the coming months. Annual inflation rose to 3.1% in September, driven almost entirely by energy, while core measures, which strip out volatile components, eased below 2%, the midpoint of the bank's 1% to 3% target range.

At IMF meetings earlier this month, Macklem said the BoC was getting wary of sustained higher crude oil prices and the risks that its impact might broaden, signaling that it was razor-focused on its mandate to keep inflation at the midpoint of its target. When the BoC will announce its monetary policy decision at 9:45 a.m. ET, it will also release the quarterly Monetary Policy Report, where it is expected to sharply revise its inflation forecast for the coming year. In its last report in July, the bank had forecast the consumer price index to be at 2.5% this year and 2% next year. Macklem said earlier this month that substantial revisions were coming.

In the U.S., the Federal Reserve will also announce its policy decision today, and it is largely expected to hold rates steady, less than a week ahead of critical US midterm elections centered on the cost of living. Fed officials ahead of this week's two-day policy meeting had signaled the central bank could be patient after raising rates by a quarter of a percentage point last month.

Financial markets' focus has shifted to the likely pace and extent of future rate increases that investors see as inevitable given the strength of inflation. Economists and many Fed policymakers now see prices driven higher not just by the lingering energy cost shock from Trump's decision to attack Iran and the holdover effects of his tariffs, but by strong demand from the artificial intelligence industry and healthy consumer spending.



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In markets, US stocks are on track to open higher this morning as memory-chip firms climbed after SK Hynix's reported a more than sevenfold jump in quarterly profit. The focus now shifts to quarterly results from hyperscalers Microsoft and Alphabet, due after markets close today, with both companies expected to report accelerating cloud growth. Investors will closely scrutinize their capital expenditure plans for signs that massive AI investments are generating returns, as concerns over the viability of debt-funded spending amid rising borrowing costs continue to weigh on the sector.

Oil prices rose more than $2 after an attack on a refinery in Saudi Arabia, which renewed concerns about supply risks from conflicts in the Middle East.

Israel's currency, stocks and bonds came under pressure as election results showed Prime Minister Benjamin Netanyahu's right-wing bloc performing more strongly than expected, but still falling short of a parliamentary majority. Israeli media projected Netanyahu's right-wing bloc to win 54 seats, well ahead of the 47 forecast for rival Gadi Eisenkot's opposition bloc but short of the 61 needed for a majority in the 120-seat parliament.

What's Up with the Dollar? (Argus)

Trends in the U.S. dollar, the world's dominant currency, offer clues about the confidence investors have in the U.S. economy and financial system. The greenback has been in demand since the start of the pandemic, and at the beginning of 2025 was 21% above its long-run average. But that hot-dollar trend has started to unwind a bit. Over 2025, the greenback declined 5% on a global, trade weighted basis and in response to uncertainty caused by President Trump's trade policies, deficit spending in Washington, a recovery in the European economy, and simple value investing. In recent months, after a dollar rally linked to the onset of the war in Iran, the downward trend has re-emerged. As of late September, the U.S. dollar was down 7% from its cycle highs, reflecting concerns over the swelling federal debt as well as issues with long-term interest rates. But it is our view that the dollar is nowhere near at risk of losing its status as the global currency of choice. The dollar is about 12% (and more than one standard deviation) above its 20-year average value.



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It has weathered inflation scares, elections, and U.S. government shutdowns, supported by the depth of a $29 trillion market, not to mention by the Federal Reserve and the country's time-tested political/economic system of democratic capitalism. The alternative currencies have their flaws as well. We view the state of the dollar as one of the main checks and balances to the U.S.'s status as the leader of the global economy. So far, so good. We would be concerned that the country could be at risk of losing that status if the greenback were to plunge 20% in a short time as it did after the S&P downgrade of U.S. debt back in 2011. A dollar back at 2011 levels would almost certainly mean higher interest rates, a potential drag on the economy, and intense pressure on stocks.

Bond Yields (bps (basis points) negative means prices up and positive means prices down)

Figure 1: **Key Interest Rates (Canada & U.S.)**

Canadian Key Rate	Last	Change bps	Canadian Key Rate	Last	Change bps
CDA o/n	2.25%	0.0	CDA 5 year	3.56%	-1.7
CDA Prime	4.45%	0.0	CDA 10 year	3.82%	-1.7
CDA 3 month T-Bill	2.52%	0.0	CDA 20 year	4.03%	-1.7
CDA 6 month T-Bill	2.72%	0.0	CDA 30 year	4.11%	-1.5
CDA 1 Year	3.03%	-1.5			
CDA 2 year	3.36%	-1.7			
US Key Rate	**Last**	**Change bps**	**US Key Rate**	**Last**	**Change bps**
US FED Funds	3.75-4.00%	0.0	US 5 year	4.83%	0.8
US Prime	7.00%	0.0	US 10 year	4.99%	0.0
US 3 month T-Bill	4.05%	0.5	US 30 year	5.29%	-0.7
US 6 month T-Bill	4.36%	0.3	5YR Sovereign CDS	46.02	
US 1 Year	4.47%	1.8	10YR Sovereign CDS	53.99	
US 2 year	4.73%	1.6			
Preferred Shares Indicators			**Last**	**Daily %**	**YTD**
S&P Preferred Share Index			699.39	0.00%	0.45%
BMO Laddered Preferred Shares (ETF)			12.82	0.00%	3.97%

Source: LSEG

Keep looking forward! Have a great day!
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